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FISCAL IMPACT STATEMENT

LS 7585 | **NOTE PREPARED:** Jan 18, 2009
BILL NUMBER: HB 1622 | **BILL AMENDED:**

SUBJECT: Advanced Renewable Energy Tariffs.

FIRST AUTHOR: Rep. Pierce | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill requires a person that operates an electric grid to: (1) provide priority interconnections between renewable energy facilities and the grid operator's grid; (2) transmit on a priority basis electricity generated by renewable energy facilities that are connected to its grid; and (3) perform necessary grid upgrades to enable the interconnection of renewable energy facilities. It provides that the costs associated with connecting a renewable energy facility to a grid shall be borne by the operator of the renewable energy facility (facility operator). It provides that the costs of any necessary grid updates shall be borne by the grid operator.

This bill requires an energy utility to enter into a contract for the purchase of electricity generated by a renewable energy facility upon the request of the facility operator. It provides that the contract must be for a term of at least 20 years and must require the energy utility to purchase electricity from the renewable energy facility: (1) on a priority basis; and (2) at a rate that is not less than the applicable renewable energy rate at the time the contract is entered into. It also requires the Indiana Utility Regulatory Commission (IURC) to develop and make available a standard contract for use by energy utilities in entering into contracts with facility operators.

The bill provides that an energy utility's obligation to enter into a contract with a facility operator ends after June 30, 2029. It sets forth specific renewable energy rates for electricity generated from the following renewable energy resources: (1) hydropower; (2) landfill gas or sewage treatment gas; (3) biogas; (4) geothermal energy; (5) wind energy; and (6) solar energy.

Beginning in 2011, the IURC is required to review renewable energy rates every two years to determine if the rates reflect the price needed for the profitable development of renewable energy facilities in Indiana.

It provides that if the IURC determines that the rates do not reflect the price needed for the profitable development of renewable energy facilities in Indiana, the IURC may, upon public notice and opportunity for hearing, adjust the rates to reflect a level of profitability that: (1) ensures the rapid deployment of renewable electricity generation; and (2) does not result in excessive profits for facility operators or unnecessary costs to ratepayers. It provides that any rate adjustments made by the IURC apply only to contracts that are entered into after the date of the IURC's order adjusting the rates. It provides that if a facility operator that enters or seeks to enter into a purchase contract with an energy utility receives any federal tax incentives or other benefits available for renewable electricity generation, the renewable energy rate that would ordinarily apply must be reduced by an amount that reflects the tax incentives or benefits received.

This bill requires the IURC to establish a method or formula for proportionally reducing renewable energy rates to account for the federal incentives and benefits received by facility operators. Beginning in 2010, each energy utility that purchased electricity under contracts with facility operators during the previous calendar year is required to annually report the following information to the IURC:
(1) The total amount of electricity purchased under all of the utility's contracts with facility operators.
(2) The price paid for the electricity purchased under the contracts.
(3) The total amount of electricity supplied by the utility to all its Indiana customers.

The bill also requires the IURC to compile the information submitted by the energy utilities and determine:

(1) a statewide ratio of the total amount of electricity purchased under all renewables contracts by all energy utilities, to the total amount of electricity supplied to Indiana customers by the purchasing energy utilities; and
(2) for each purchasing energy utility, an individual ratio of the energy utility's total purchases under all the utility's renewables contracts, to the total amount of electricity supplied by the energy utility to all its Indiana customers.

The bill provides that if an energy utility's individual ratio is less than the statewide ratio, the energy utility must pay to the IURC an equalization charge that reflects the difference between the statewide ratio and the energy utility's ratio. It also provides that if an energy utility's individual ratio is greater than the statewide ratio, the IURC must remit to the energy utility an equalization payment that reflects the difference between the energy utility's ratio and the statewide ratio. It establishes the Renewable Energy Equalization Fund to be administered by the IURC to receive equalization charges and disburse equalization payments. It also requires the IURC to establish a statewide registry of all renewable energy facilities that enter into contracts with energy utilities after June 30, 2009. The bill also requires the IURC to record in the registry certain information with respect to each facility. It requires the State Utility Forecasting Group to include certain information in its annual report on renewable energy resources in Indiana. This bill also makes an appropriation.

Effective Date: Upon passage.

Explanation of State Expenditures: *IURC*: This bill would increase the administrative expenditures of the IURC. The bill requires the IURC to administer the Renewable Energy Equalization Fund (established in this bill). It requires the IURC to develop and make available a standard contract for use by energy utilities for the purchase of electricity generated by a renewable energy facility. The bill requires the IURC to establish and maintain a statewide registry of all renewable energy facilities that enter into contracts with energy utilities.

The bill also requires the IURC to review renewable energy rates every two years to determine if the rates reflect the price needed for the profitable development of renewable energy facilities. The increase in expenditures to the IURC is indeterminable, but would be offset by public utility fees.

State Utility Forecasting Group : Beginning in 2010, this bill requires the State Utility Forecasting Group to include in its annual report an analysis of the impact of certain provisions of the bill on encouraging the rapid and sustainable development of renewable energy resources for the generation of electricity in Indiana. Any increase in expenditures should be minimal.

State and Local Government Utility Expenditures: This bill could increase expenditures by state and local governments for utilities. It is estimated that provisions of this bill could increase utility rates. The overall impact on expenditures is indeterminable.

Background on IURC Funding- The operating budget of the IURC is funded by regulated utilities operating in Indiana. The IURC determines the rate at which to bill the utilities based on the agency's budget, less reversions, divided by the total amount of gross intra-state operating revenue received by the regulated utilities for the previous fiscal year. Based on this formula, utilities are currently billed approximately 0.15% of their gross intra-state operating revenues to fund the IURC.

Explanation of State Revenues: *Renewable Energy Equalization Fund:* The Renewable Energy Equalization Fund is established to receive equalization charges and disburse equalization payments. The bill provides that if an energy utility's individual ratio is less than the statewide ratio, the energy utility must pay to the IURC an equalization charge that reflects the difference between the statewide ratio and the energy utility's ratio. It also provides that if an energy utility's individual ratio is greater than the statewide ratio, the IURC must remit to the energy utility an equalization payment that reflects the difference between the energy utility's ratio and the statewide ratio

Utility Rates: It is estimated that this bill could increase utility rates. The bill provides that if the IURC determines that the rates do not reflect the price needed for the profitable development of renewable energy facilities in Indiana, the IURC may adjust the rates to reflect a level of profitability that ensures the rapid deployment of renewable electricity generation. The bill also sets forth specific renewable energy rates for electricity generated from the following renewable energy resources; hydropower, landfill gas or sewage treatment gas, biogas, geothermal energy, wind energy, and solar energy.

To the extent that any of the provisions of this bill increase utility rates, there could be an increase in the Utility Receipts Tax (URT), the Utility Services Use Tax (USUT), and Sales Tax collections. The amount of any increase is indeterminable and will ultimately depend on rate adjustments allowed by the IURC.

Taxes: The rate for both the URT and USUT is 1.4%. The URT is calculated on the gross receipts of all entities providing the retail sale of utility services in Indiana. The USUT is imposed on the retail consumption of utility services in Indiana. Both the URT and USUT are deposited in the state General Fund. Sales Tax revenue is deposited in the state General Fund (99.178%), the Public Mass Transportation Fund (0.670%), the Commuter Rail Service Fund (0.123%), and the Industrial Rail Service Fund (0.029%).

Background Information- The statewide ratio is the ratio of the total amount of electricity purchased under all renewables contracts by all energy utilities to the total amount of electricity supplied to Indiana customers by all purchasing energy utilities with respect to the immediately preceding calendar year.

For each purchasing energy utility, an individual ratio is the ratio of the energy utility's total purchases under all the utility's renewables contracts to the total amount of electricity supplied by the energy utility to all its Indiana customers with respect to the immediately preceding calendar year.

If an energy utility's ratio calculated is less than the statewide ratio calculated, the IURC shall assess the energy utility an equalization charge in an amount equal to the amount by which the statewide ratio exceeds the energy utility's ratio multiplied by the sum of the amounts reported by all energy utilities for the payment of electricity as determined by the IURC.

If an energy utility's ratio calculated is greater than the statewide ratio, the IURC shall assess the energy utility an equalization payment in an amount equal to the amount by which the energy utility's ratio exceeds the statewide ratio multiplied by the sum of the amounts reported by all energy utilities for the payment of electricity as determined by the IURC.

As used in this bill, "energy utility" means a public utility or a municipally owned utility within the meaning of IC 8-1-2-1, or a local district corporation or a general district corporation within the meaning of IC 8-1-13-23, engaged in the production, transmission, delivery, or furnishing of electricity.

Explanation of Local Expenditures: See *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: IURC; All.

Local Agencies Affected: All.

Information Sources:

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